

Registered Number 3196171



**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

**FOR THE EIGHT MONTH PERIOD**

**FROM 2ND MAY 1996 TO 31ST DECEMBER 1996**



**CLERICAL MEDICAL**

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**DIRECTORS' REPORT AND ACCOUNTS**

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# **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

## **DIRECTORS AND COMPANY INFORMATION**

### **DIRECTORS**

#### **CHAIRMAN**

J L Wood

#### **CHIEF EXECUTIVE**

R P Walther

#### **OTHER DIRECTORS**

M Argent

J M Blackburn (resigned 1st January 1997)

D M Claisse

J R Crosby

Sir John A H L Hoskyns

M R N Moore

R N Quartano

R Rees

P L M Sherwood

R G Ward

All the above directors were appointed on 1st January 1997, with the exception of J M Blackburn and J R Crosby who were appointed on 2nd May 1996.

### **SECRETARY**

S A M Fogarty

### **PRINCIPAL PLACES OF BUSINESS**

#### *Principal/Registered Office*

15 St James's Square

London

SW1Y 4LQ

#### *Bristol Head Office*

Narrow Plain

Bristol

BS2 0JH

#### *Clevedon Office*

Tickenham Road

Clevedon

BS21 6BD

### **APPOINTED ACTUARY**

A Saunders, FIA

### **AUDITORS**

KPMG Audit Plc

8 Salisbury Square

London

EC4Y 8BB

# **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

## **DIRECTORS' REPORT**

The directors present their Report and the audited Accounts for the eight month period from 2nd May 1996 to 31st December 1996.

### **PRINCIPAL ACTIVITY**

The company was incorporated on 2nd May 1996 as a wholly owned subsidiary of HCM Holdings Limited, itself a wholly owned subsidiary of Halifax Building Society, with an issued share capital of £1. On 27th September 1996 the company's share capital was increased to £70,000,000 by the issue of 69,999,999 shares of £1 each to its parent undertaking, HCM Holdings Limited. The issue was made in order to meet the minimum solvency requirements of the DTI.

The transfer of the business of Clerical, Medical and General Life Assurance Society (the Society), including its subsidiaries, was made on 31st December 1996. A capital contribution of £730m was made by HCM Holdings Limited on 27th December 1996.

The company's principal group undertakings and participating interests are shown in Note 7 to these accounts.

### **RESULT AND DIVIDEND**

The result for the period is shown in the profit and loss account on page 7. The directors do not recommend the payment of a dividend. There were no transactions in the period that fall to be disclosed in the group's technical account and hence no technical account has been included in these accounts.

### **FUNDS UNDER MANAGEMENT**

Group funds under management amounted to £16.2 billion at 31st December 1996.

### **FUTURE DEVELOPMENTS**

The company will transact long term insurance business, and its associated investment business, other than industrial life assurance. The company is regulated by the Personal Investment Authority and Investment Management Regulatory Organisation and is a member of the Association of British Insurers.

### **SUPPLIER PAYMENT POLICY**

For the forthcoming financial period, the company's policy with regards to the payment of its suppliers will be as follows:

- payment terms will be agreed at the start of the relationship with the supplier;
- any changes in terms will be fully discussed and agreed with the supplier;
- standard payment terms to suppliers of goods and services will be thirty days after the invoice date, subject to the quality of goods and services and the accuracy of billing;

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## DIRECTORS' REPORT

continued

- non-standard payment terms will apply where an alternative contract or agreement exists, whereby Clerical Medical Investment Group Limited agrees to meet all payments under that arrangement, subject to a satisfactory invoice or statement being received.

### DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the period, together with the dates of appointments and resignations, were as follows:

	Date of appointment	Date of resignation
J M Blackburn	2nd May 1996	1st January 1997
J R Crosby	2nd May 1996	

During the period no director had any interest in the share capital of the company or of any group undertaking, and no rights to subscribe for such interests were granted.

### AUDITORS

KPMG Audit Plc, having consented to act, will continue in office as auditors.

### ANNUAL GENERAL MEETINGS

Pursuant to the Elective Resolution of the company passed on 4 October 1996 the company has dispensed with the need to hold Annual General Meetings. Any member of the company is entitled to require the laying of the accounts before a general meeting on giving due notice to that effect in accordance with Section 253 of the Companies Act 1985.

By Order of the Board



Susan Fogarty  
Secretary

15 St James's Square  
London  
SW1Y 4LQ

18th February 1997

## **CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those accounts the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **REPORT OF THE AUDITOR**

### **TO THE MEMBERS OF CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

We have audited the accounts on pages 7 to 21.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As described on page 5 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit on those accounts, and to report our opinion to you.

#### **BASIS OF OPINION**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

#### **OPINION**

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the Group at 31st December 1996 and of the profit of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc  
Registered Auditor

8 Salisbury Square  
London  
EC4Y 8BB

18th February 1997

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the eight month period from 2nd May 1996 to 31st December 1996

### NON-TECHNICAL ACCOUNT

		Continuing Operations
		2nd May 1996 to
	Notes	31st Dec 1996
		£m
<i>Balance on the long term business technical account</i>		-
Tax attributable to the balance on the technical account		-
<i>Shareholders' pre-tax profit arising from long term insurance business</i>		<u>-</u>
Investment income	2	1.5
Unrealised gains on investments		-
Investment expenses and charges		-
Other income		-
Other charges, including value adjustments		-
<i>Profit on ordinary activities before taxation</i>		<u>1.5</u>
Tax on profit on ordinary activities	3	(0.5)
<i>Profit for the financial period</i>		<u><u>1.0</u></u>

A statement of the movement on reserves is shown in Note 15 to the Accounts on page 18.

The group had no recognised gains or losses other than the profit for the period shown above. There is no material difference between the result as disclosed in the profit and loss account and the result as given by an unmodified historical cost basis.

There were no transactions that fall to be disclosed in the group's technical account and hence no technical account has been included in these accounts.

The notes on pages 10 to 21 form part of these accounts.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**BALANCE SHEETS**

*as at 31st December 1996*

	Notes	Group 31 Dec 1996		Company 31 Dec 1996	
		£m	£m	£m	£m
<b>ASSETS</b>					
<i>Investments</i>	<b>6</b>				
Land and buildings		704.7		700.7	
Investments in Group undertakings and participating interests		149.6		333.1	
Other financial investments		8,089.4		7,817.5	
		<hr/>	8,943.7	<hr/>	8,851.3
<i>Assets held to cover linked liabilities</i>	<b>8</b>		3,972.7		859.5
<i>Reinsurers' share of technical provisions</i>					
Long term business provision		26.5		1,119.8	
Claims outstanding		0.1		-	
		<hr/>	26.6	<hr/>	1,119.8
<i>Debtors</i>					
Debtors arising out of direct insurance operations	<b>9</b>	12.1		11.9	
Other debtors	<b>10</b>	114.4		112.1	
		<hr/>	126.5	<hr/>	124.0
<i>Other assets</i>					
Tangible assets	<b>11</b>	13.7		11.7	
Cash at bank and in hand		73.1		21.9	
		<hr/>	86.8	<hr/>	33.6
<i>Prepayments and accrued income</i>					
Accrued interest and rent		5.5		5.5	
Deferred acquisition costs		186.6		151.1	
Other prepayments and accrued income	<b>12</b>	629.0		628.6	
		<hr/>	821.1	<hr/>	785.2
<b>TOTAL ASSETS</b>			<hr/> <hr/>		<hr/> <hr/>
			13,977.4		11,773.4

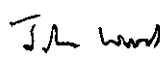
# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## BALANCE SHEETS

as at 31st December 1996

	Notes	Group 31 Dec 1996		Company 31 Dec 1996	
		£m	£m	£m	£m
<b>LIABILITIES</b>					
<i>Capital and reserves</i>					
Called up share capital	14,15	70.0		70.0	
Profit and loss account	15	1.0		1.0	
General reserves	15	634.0		634.0	
<i>Shareholder's funds attributable to equity interests</i>			705.0		705.0
<i>Fund for future appropriations</i>	16		2,123.7		2,063.2
<i>Technical provisions</i>					
Long term business provision	17	6,896.0		7,966.4	
Claims outstanding		18.0		17.2	
			6,914.0		7,983.6
<i>Technical provisions for linked liabilities</i>	18		3,972.7		859.5
<i>Provisions for other risks and charges</i>	19		23.5		23.5
<i>Creditors</i>					
Creditors arising out of direct insurance operations	20	29.4		24.5	
Other creditors including taxation and social security	21	188.6		95.7	
			218.0		120.2
<i>Accruals and deferred income</i>			20.5		18.4
<b>TOTAL LIABILITIES</b>			<u>13,977.4</u>		<u>11,773.4</u>

These accounts were approved by the Board of Directors on 18th February 1997 and were signed on its behalf by:

J L Wood  Chairman

R P Walther  Chief Executive

The notes on pages 10 to 21 form part of these accounts.

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

#### **Basis of preparation**

The accounts have been prepared in accordance with Sections 255 and 255A of, and Schedule 9A to, the Companies Act 1985. The accounts have also been prepared in accordance with applicable accounting standards and have been drawn up under the historical cost convention as modified to include the revaluation to market values of investments, and comply with the Guidance on Accounting for Insurance Business issued by the Association of British Insurers in December 1995 ('the Guidance'). In accordance with the Guidance, the Group has adopted the modified statutory solvency basis for determining technical provisions.

The Group accounts comprise the accounts of Clerical Medical Investment Group Limited and its subsidiary undertakings. As the year ends of the two Luxembourg subsidiaries named in Note 7 are different from that of the company (Universe, The CMI Global Network Fund and The CMI Managed International Company have accounting dates of 30 September and 31 May respectively), the companies' interim financial statements were used for consolidation purposes. These subsidiaries have different accounting dates from that of Clerical Medical Investment Group Limited for administrative reasons.

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these accounts.

#### **Foreign currencies**

Assets and liabilities denominated in foreign currencies are expressed in sterling at the rates of exchange ruling at the balance sheet date. Revenue transactions and those relating to the acquisition and realisation of investments are converted at rates of exchange ruling at the time of the respective transactions with the exception of transactions in some subsidiary undertakings where average rates are used.

#### **Premiums**

Premium income is accounted for on a cash basis in respect of single premium business and pensions business not subject to contractual regular premiums. For all other classes of business, premium income is accounted for in the year in which it is due for payment. Outward reinsurance premiums are accounted for when the gross premium is recognised.

#### **Investment income**

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend, with the exception of some overseas subsidiary undertakings where investment income is included on a cash received basis, and is accounted for gross of the related tax credits. Other investment income, including rents, is accrued up to the balance sheet date. Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost.

#### **Unrealised gains and losses on investments**

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date.

#### **Claims and surrenders**

All claims and surrenders notified for the period are included in the accounts. Reinsurance recoveries are recognised in the period in which the claim is reported.

#### **Commission**

Commission payable is accounted for on the same basis as the corresponding premiums, except for commission payable under indemnity terms which is charged when paid.

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### ACCOUNTING POLICIES continued

#### Deferred acquisition costs

For regular premium contracts where a series of future premiums is expected to be received, and single premium contracts where a series of future charges in respect of acquisition costs is expected to be received, only a proportion of the acquisition costs incurred in the year of sale are covered by the premium loadings received in that year. The balance, to the extent that it is recoverable out of future revenue margins, is deferred. Such deferred costs are disclosed as an asset in the balance sheet and amortised in accordance with a prudent assessment of the expected pattern of receipt of future revenue margins over the period during which the relevant contracts are expected to remain in force. For other single premium contracts acquisition costs are covered by the premium loadings in the year of sale. There is, therefore, no deferral of costs on these contracts.

#### Taxation

The charge or credit for taxation is based on the result for the year and is determined by reference to the rules applicable to the taxation of life assurance companies. Any balance on the Long Term Business Technical Account carried forward into the Non Technical Account is grossed up at the standard rate of corporation tax applicable for the period.

Deferred taxation is calculated on a discounted basis and is provided at current rates of tax only in respect of liabilities which can reasonably be expected to arise in the foreseeable future.

#### Pension costs

Contributions to the company's defined benefit pension scheme are determined using the attained age method. The scheme is valued every three years by a qualified actuary who is an employee of the company. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of scheme members.

#### Investments

Investments, which include financial futures and options contracts entered into as part of the Group's overall risk management strategy, are shown in the balance sheets at market value or their equivalents as follows:

- (i) Properties are valued on the basis of open market value, account being taken of the cost of disposal. In all cases valuations are carried out by persons who are members of the Royal Institution of Chartered Surveyors.
- (ii) Listed investments other than units in unit trusts are valued at the middle market price adjusted to include accrued interest. Units in unit trusts are valued at minimum bid price. Unlisted investments and shares in and loans to group undertakings are valued by the directors at estimated open market values.

In accordance with SSAP 19, no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years to run as these properties are held for investment. In respect of owner-occupied property, the directors consider that residual values are such that their depreciation is insignificant and is thus not provided. The requirement of the Companies Act 1985 is to depreciate all properties, but that requirement conflicts with the generally accepted principle set out in SSAP 19. The directors consider it is necessary to adopt SSAP 19 in order for the accounts to give a true and fair view.

#### Tangible assets

The cost of tangible fixed assets is written off over their estimated useful lives in equal annual instalments. Provision is made for the diminution in value of any fixed asset where the reduction is expected to be permanent. The resulting net book value of the asset is written off over its remaining expected economic life.

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 1 ACCOUNTING POLICIES continued

#### Acquisitions

Acquisitions are accounted for in accordance with Financial Reporting Standards 6 and 7 ("Acquisitions and Mergers" and "Fair Values in Acquisition Accounting"). The value of in force policies acquired is recognised and amortised on a basis consistent with the emergence of associated profit. Any excess contribution arising as the difference between the fair value of the net identifiable assets acquired and the fair value of the contribution is written off immediately to reserves.

#### Technical provisions

- (i) The company's long term business provision is determined by the Appointed Actuary following his annual valuation of the long term liabilities. The valuation is carried out in accordance with the requirements of the Insurance Companies Act 1982 using the net premium method adjusted as follows:
- (a) any resilience, close-down and certain other reserves required under the Insurance Companies Regulations are deducted from the mathematical reserves; and
  - (b) the Zillmer adjustment to make allowance in the valuation for margins in future premiums which will be used as a means of recovering the acquisition expenses is included.
- Long term business provisions include the non unit liabilities in respect of unit linked business.
- (ii) The technical provisions for linked liabilities are determined by reference to the benefits under the contracts.

#### Cash flow statement

Under FRS1 (revised 1996) which the company has adopted, it is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

### 2 INVESTMENT INCOME

Non technical account  
2nd May 1996 to  
31st Dec 1996  
£m

Interest receivable on deposits with parent undertaking	<u>1.5</u>
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### 3 TAX ON PROFIT ON ORDINARY ACTIVITIES

Non technical account  
2nd May 1996 to  
31st Dec 1996  
£m

UK corporation tax at 33% on the profit for the period on ordinary activities	<u>0.5</u>
-------------------------------------------------------------------------------	------------

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 4 STAFF NUMBERS AND COSTS

The Directors did not receive any emoluments from the company during the period.

The company had no employees until 31 December 1996 when the business of Clerical, Medical and General Life Assurance Society (and its subsidiaries) was transferred to it along with the contracts of employment of employees at that time (2,438 people). The company incurred no staff costs during the period.

### 5 STAFF SUPERANNUATION FUND

With effect from 1 January 1997 the company operates a defined benefit pension scheme which is funded by the payment of contributions to a separately administered trust fund. For the purposes of SSAP 24, the most recent actuarial valuation was conducted as at 1 January 1994 when the scheme was operated by the Clerical, Medical and General Life Assurance Society and used the following main assumptions:

Investment return	9.0% per annum
Salary increases	7.0% per annum
Future pensions increases	4.5% per annum

The valuation showed that the market value of the scheme's assets at that date amounted to £200.3m and the actuarial value of those assets represented 176% overall of the benefits that had accrued to members, after allowing for assumed future increases in earnings and pensions.

Contributions to the Fund have currently been suspended. This decision will be reviewed when the next valuation as at 1 January 1997 is available. The surplus is being spread over the expected remaining service lives of current employees by a straight line apportionment.

### 6 INVESTMENTS

(a) Land and buildings:

	Group				Company			
	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m	Freehold £m	Long Leasehold £m	Short Leasehold £m	Total £m
<b>Valuation</b>								
At 31st December 1996	<u>564.4</u>	<u>81.6</u>	<u>58.7</u>	<u>704.7</u>	<u>560.6</u>	<u>81.5</u>	<u>58.6</u>	<u>700.7</u>
<b>Cost</b>								
At 31st December 1996	<u>564.4</u>	<u>81.6</u>	<u>58.7</u>	<u>704.7</u>	<u>560.6</u>	<u>81.5</u>	<u>58.6</u>	<u>700.7</u>

Some £211.0m (30%) of the above properties were valued by external valuers. Included in the above figures are land and buildings owned and occupied by the Group at 31 December 1996 of £34.8m.

**CLERICAL MEDICAL INVESTMENT GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

continued

**6 INVESTMENTS continued**

(b) Investments in Group undertakings and participating interests:

**Group**

	Participating Interests		
	Ordinary Shares £m	Other Investments £m	Total £m
<b>Valuation</b>			
At 31st December 1996	<u>144.3</u>	<u>5.3</u>	<u>149.6</u>
<b>Cost</b>			
At 31st December 1996	<u>144.3</u>	<u>5.3</u>	<u>149.6</u>

**Company**

	Group Undertakings			Participating Interests			
	Ordinary Shares £m	Loans £m	Total £m	Ordinary Shares £m	Other Investments £m	Total £m	Total £m
<b>Valuation</b>							
At 31st December 1996	<u>193.0</u>	<u>5.5</u>	<u>198.5</u>	<u>129.3</u>	<u>5.3</u>	<u>134.6</u>	<u>333.1</u>
<b>Cost</b>							
At 31st December 1996	<u>193.0</u>	<u>5.5</u>	<u>198.5</u>	<u>129.3</u>	<u>5.3</u>	<u>134.6</u>	<u>333.1</u>

(c) Other financial investments:

**Group**

	Valuation 31 Dec 1996 £m	Cost 31 Dec 1996 £m
Shares and other variable yield securities and units in unit trusts	4,243.9	4,243.9
Debt securities and other fixed income securities	2,126.9	2,126.9
Loans secured by mortgages	1.6	1.6
Other loans	24.8	24.8
Deposits with credit institutions	1,692.2	1,692.2
	<u>8,089.4</u>	<u>8,089.4</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 6 INVESTMENTS continued

#### Company

	Valuation 31 Dec 1996 £m	Cost 31 Dec 1996 £m
Shares and other variable yield securities and units in unit trusts	4,146.5	4,146.5
Debt securities and other fixed income securities	2,088.7	2,088.7
Loans secured by mortgages	1.6	1.6
Other loans	24.8	24.8
Deposits with credit institutions	1,555.9	1,555.9
	<u>7,817.5</u>	<u>7,817.5</u>

Included in the valuations shown in (b) and (c) above are the following listed investments:

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Shares and other variable yield securities and units in unit trusts	4,254.0	4,383.7
Debt securities and other fixed income securities	2,060.0	2,060.8

At the balance sheet date certain of the company's investments were on loan to market makers under a stock lending scheme authorised by the Bank of England.

### 7 GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

Particulars of the company's principal group undertakings and participating interests are shown below. Other holdings in group undertakings and participating interests are not considered to be material.

	Country of Incorporation or Registration	Nature of Business	% Held
<b>Group Undertakings</b>			
Clerical Medical Managed Funds Limited	England	Life Insurance	100.0
Clerical Medical Unit Trust Managers Limited	England	Unit Trust Management	100.0
CMI Financial Management Services Limited	Isle of Man	Financial Services	100.0
CMI Financial Services Limited	England	Financial Services	100.0
CMI Insurance Company Limited	Isle of Man	Life Insurance	100.0
Universe, The CMI Global Network Fund	Luxembourg	Open-Ended Investment Company	80.2
The CMI Managed International Company	Luxembourg	Open-Ended Investment Company	96.3
<b>Participating Interests</b>			
Brixton Estate plc	England	Property Investment Company	21.8
Coryo - CM Life Insurance Corporation	Republic of Korea	Life Insurance	50.0
Pharos SA	Luxembourg	Investment Company	27.1

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 8 ASSETS HELD TO COVER LINKED LIABILITIES

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
At valuation	<u>3,972.7</u>	<u>859.5</u>
At cost	<u>3,972.7</u>	<u>859.5</u>

### 9 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Amounts receivable from policyholders	10.2	10.0
Amounts receivable from intermediaries	0.2	0.2
Reinsurance debtors	1.7	1.7
	<u>12.1</u>	<u>11.9</u>

### 10 OTHER DEBTORS

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Tax recoverable	9.3	9.1
Outstanding interest, dividends and rents	23.3	18.9
Amount receivable from parent	50.0	50.0
Amount receivable from group undertakings	-	14.8
Other	31.8	19.3
	<u>114.4</u>	<u>112.1</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 11 TANGIBLE ASSETS

	Motor Vehicles £m	Computer Equipment £m	Office Equipment £m	Total £m
<b>Group</b>				
Net book value transferred at 31st December 1996	<u>4.7</u>	<u>7.6</u>	<u>1.4</u>	<u>13.7</u>
<b>Company</b>				
Net book value transferred at 31st December 1996	<u>4.2</u>	<u>6.1</u>	<u>1.4</u>	<u>11.7</u>

At 31st December 1996 the company and Group held assets under finance leases of £2.2m and £2.6m respectively.

### 12 OTHER PREPAYMENTS AND ACCRUED INCOME

Other prepayments and accrued income include the value of in force policies transferred from Clerical, Medical and General Life Assurance Society (£620.0m).

### 13 ACQUISITION OF CLERICAL, MEDICAL AND GENERAL LIFE ASSURANCE SOCIETY

On 31st December 1996 the business of Clerical, Medical and General Life Assurance Society and its subsidiary undertakings transferred to the company. The combination has been accounted for as an acquisition. Details of the assets acquired and their fair value are set out below:

	Book value of acquired assets at date of acquisition £m	Fair value adjustment (Provisional) £m	Fair value at date of acquisition (Provisional) £m
Value of in force policies	-	620.0	620.0
Fixed assets (net of leasing liabilities)	9.5	-	9.5
Other assets	5.8	4.7	10.5
Excess contribution	-	-	140.0
<b>Total</b>	<u>15.3</u>	<u>624.7</u>	<u>780.0</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

The calculation of the contribution to be paid by the company is prescribed by the Scheme of Transfer. The final calculation will be based on contribution accounts which will be available in June 1997. The difference between the provisional and final figures will be adjusted in the company's 1997 accounts. On 27th December 1996 the company received £730m of the contribution. The remainder of the contribution was outstanding as at 31st December 1996 and is shown in Note 10.

### 14 CALLED UP SHARE CAPITAL

	31 Dec 1996 £m
Authorised: 150,000,000 ordinary shares of £1 each	150.0
Allotted, called up and fully paid: 70,000,000 ordinary shares of £1 each	70.0

### 15 RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

	Share capital £m	Profit and loss account £m	General Reserves £m	Total £m
At 2nd May 1996	-	-	-	-
Profit for the financial period	-	1.0	-	1.0
Issue of share capital	70.0	-	-	70.0
Capital contribution from parent	-	-	780.0	780.0
Excess contribution (Note 13)	-	-	(140.0)	(140.0)
Acquisition expenses	-	-	(6.0)	(6.0)
At 31st December 1996	70.0	1.0	634.0	705.0

Distributable reserves at 31st December 1996 were £635.0m.

### 16 FUND FOR FUTURE APPROPRIATIONS

The fund for future appropriations comprises all funds which have yet to be allocated to policyholders or shareholders.

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
At 2nd May 1996	-	-
Transfer from Clerical, Medical and General Life Assurance Society	1,444.6	1,384.1
Contribution from shareholders	780.0	780.0
Book value of assets allocated to shareholders (Note 13)	(15.3)	(15.3)
Write off of deferred acquisition costs relating to purchased value of in force policies	(85.6)	(85.6)
At 31st December 1996	2,123.7	2,063.2

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 17 LONG TERM BUSINESS PROVISION

The principal assumptions used in calculating the long term business provisions were as follows:

Class of business	Mortality	Interest (%)
Without Profit	A67/70 (x-3) Ult*	4.95
With-Profit	A67/70 (x-3) Ult*	3.25
Without Profit Pensions	A67/70 (x-3) Ult*	6.00
With-Profit Pensions Regular	A67/70 (x-3) Ult*	4.25
With-Profit Pensions Single	A67/70 (x-3) Ult*	3.50
Personal Pension Contract Regular	A67/70 (x-3) Ult*	5.25
Personal Pension Contract Single	A67/70 (x-3) Ult*	4.25
Life Annuities in Payment	a (90) Ult (x-8)	6.25
Pensions Annuities in Payment	90% PMA80/PFA80 (C=2020)	6.25

\* An allowance has been made for additional mortality due to AIDS.

Explicit provision is made for vested bonuses. No such provision is made for future reversionary or terminal bonuses.

### 18 TECHNICAL PROVISIONS FOR LINKED LIABILITIES

The technical provisions in respect of linked business are equal to the value of the assets to which the contracts are linked.

### 19 PROVISIONS FOR OTHER RISKS AND CHARGES

The balance of £23.5m is comprised of deferred tax on the deemed disposal of unit trusts and offshore funds.

The potential liability for deferred taxation not provided is as follows:

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Unrealised appreciation of invested assets	87.2	80.2
Other items		
Excess of interest receivable over interest payable	0.6	1.3
Difference between tax allowances and depreciation	2.1	2.1
Deferred acquisition costs	4.4	4.4
Miscellaneous	0.2	0.4
	<u>94.5</u>	<u>88.4</u>

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 20 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Amounts owed to trustees of pension funds (including accrued interest), policyholders, intermediaries and other insurers	28.0	23.1
Reinsurance creditors	1.4	1.4
	<u>29.4</u>	<u>24.5</u>

### 21 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Inter fund loans	99.9	24.1
Outstanding purchases of investments	7.5	7.5
Amount payable to parent	6.0	6.0
Accounts payable	8.1	8.1
Taxation payable	31.5	31.5
Other	35.6	18.5
	<u>188.6</u>	<u>95.7</u>

### 22 CAPITAL COMMITMENTS

The estimated capital expenditure on investments and equipment for which no provision has been made in the accounts is as follows:

	Group 31 Dec 1996 £m	Company 31 Dec 1996 £m
Amount contracted	62.3	61.4
Liability on partly paid stocks and shares	7.2	1.4

# CLERICAL MEDICAL INVESTMENT GROUP LIMITED

## NOTES TO THE ACCOUNTS

continued

### 23 CONTINGENT LIABILITIES

	Company and Group 31 Dec 1996 £m
Uncalled capital on certain investments	22.7
Underwriting liabilities on certain investments	13.8

In October 1994 the Securities and Investments Board announced the way in which the Investors Compensation Scheme (ICS) will meet the costs of redress arising from pension transfers and pension opt out sales by Independent Financial Advisers that have failed. The ICS may seek to recover such costs in the form of a levy. It is not currently possible to predict the amounts that may be payable by the ICS and the consequent amount or allocation of any levy that may be raised. No provision for such costs has been made as it is not possible to estimate with reasonable accuracy the costs, if any, to the Group.

### 24 TRANSACTIONS WITH RELATED PARTIES

At 31st December 1996, certain related parties (defined as directors/principal officers and their spouses) held insurance policies and other investments managed by the Group. At this date the aggregate value of these policies and other investments was £1,201,000. No transactions between the company and its related parties were entered into during the period other than in relation to the transfer of business.

### 25 ULTIMATE PARENT UNDERTAKING

The company is a wholly owned subsidiary undertaking of HCM Holdings Limited. The ultimate parent company is Halifax Building Society, which is registered in England and operates within the United Kingdom. Copies of the accounts of Halifax Building Society may be obtained from Trinity Road, Halifax, West Yorkshire, HX1 2RG, which is its principal place of business.